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CNN'S "STATE OF THE UNION"

MARCH 3, 2013

SPEAKERS: CANDY CROWLEY, HOST

NATIONAL ECONOMIC COUNCIL DIRECTOR GENE SPERLING

REP. STEVE ISRAEL, D-N.Y.

REP. GREG WALDEN, R-ORE.

SEN. MITCH MCCONNELL, R-KY. [*] CROWLEY: Can you feel it now?

(BEGIN VIDEO CLIP)

CROWLEY (voice-over): Today, after months of dire predictions and remarkable consensus that it should never happen, it happened: mandatory budget cuts.

OBAMA: Republicans in Congress chose this outcome over closing a single wasteful tax loophole.

UNIDENTIFIED FEMALE: President Obama and Senate Democrats failed to act.

CROWLEY (voice-over): Moving beyond who did this to what next with the Senate's top Republican, Mitch McConnell.

And then the president's top economic adviser, Gene Sperling, on plan B and his side of the Woodward White House fracas.

Plus: are politics suffocating lawmaking? Posing that question to the two lawmakers leading their parties' 2014 election efforts in the House, Congressman Steve Israel and Greg Walden.

And the stock market soars to new highs while income plummets to one of the deepest one-month declines in 20 years. Our panel weighs in on the two economies. I'm Candy Crowley and this is STATE OF THE UNION.

(END VIDEO CLIP)

CROWLEY: Mitch McConnell will join me in a moment. But first, we want to take you to just outside Tampa, Florida, where demolition is underway to the home where a sinkhole formed and killing the owner of that house, Jeff Bush.

(BEGIN VIDEO CLIP)

CROWLEY (voice-over): Authorities made the decision to stop searching for Bush, who was swallowed up by the 600-foot sinkhole Thursday night. We will keep following this story and bring you updates throughout the hour.

(END VIDEO CLIP)

CROWLEY: Now back to our top story, they have had more than a year to work things out, but hours before mandatory budget cuts were triggered, the president called top Republicans and Democrats to the White House, his first bipartisan leadership meeting since December.

The meeting lived up to expectations and nothing happened. Nothing is happening now, either; no ongoing negotiations. And if you have visions of somebody somewhere pulling an all-nighter or two to get this fixed, doesn't seem in the works.

(BEGIN VIDEO CLIP)

OBAMA: I am not a dictator. I'm the president. So ultimately if Mitch McConnell or John Boehner say we need to go to catch a plane, I can't have Secret Service block the doorway.

(END VIDEO CLIP)

CROWLEY: Joining me now from his home state of Kentucky is Senate Majority Leader Mitch McConnell.

Senator, thank you so much for being here this morning. Give me a state of play. Is this, as far as Republicans are concerned, at least as far as you are concerned, are these budget cuts a done deal? They are now in place and you have no intention of having any kind of discussion about ameliorating them in some way?

MCCONNELL: Look, Candy, the question is are we going to keep the commitment we made to the American people a year and a half ago, a bipartisan agreement signed by the president, that we would reduce spending without raising taxes by this amount of money in this fiscal year?

And here we are, a year and a half later, with the president trying to walk away from the commitment we made to the American people.

Let's talk about the larger issue just for a moment. We now have a \$16 trillion national debt. Our debt is as big as our economy. That alone makes us look a lot like a Western European country.

We've had four straight years of a trillion-dollar annual deficit. This modest reduction of 2.4 percent in spending over the next six months is a little more than the average American experienced just two months ago, when their own pay went down when the payroll tax holiday expired.

(CROSSTALK)

CROWLEY: You call it modest, Senator ---

MCCONNELL: Look, if we can't --

CROWLEY: -- can I just for a second, just get back to that one word you used, and that's you call this a modest cut. And yet you know the CBO has said, well, it will cost about 750,000 jobs. It will probably ding gross domestic product by about a half a percent.

We have heard that policemen will be laid off, firemen will be laid off, teachers will be laid off, crime's going to go up, the military will be hollowed out. You know, your own Republicans are so worried about the Defense Department and yet you're calling it modest.

So there's this complete disconnect, it seems to me, about what's actually going on here, when you look at what Democrats say is going on and what Republicans say is going on.

MCCONNELL: Well, but by any objective standard, cutting 2.4 percent out of \$3.6 trillion is certainly something we can do.

CROWLEY: Over a short period of time, albeit.

MCCONNELL: Well, we promised the American people we would do this a year and a half ago. And here we are, already walking away from the spending reductions that we promised to make without tax increases, the president signed just a year and a half ago.

Bob Woodward certified that the sequester was actually the president's idea. He knows that we were not going to raise taxes to achieve this spending reduction this year.

And so I think the American people need to know that we have a spending addiction in Washington. We're exploding our spending. We've added \$6 trillion to the national debt in just four years.

CROWLEY: Am I hearing you right?

MCCONNELL: We've got to begin to cut spending. And we promised the American people we'd do it a year and a half ago and we're going to do it.

CROWLEY: And yet the polling shows that the American people actually, when talking about the sequester -- and pretty much any other kind of budget showdown you all have had -- has said they do want to have more tax increases in it.

But beyond that, are you saying to me that, yes, you believe that these sequester cuts or these budget cuts are going to stay in place? That there will be no search for an alternative by the Republican leadership?

MCCONNELL: Well, I'm absolutely confident we're going to reduce spending the amount of money that we promised the American people we would in a law the president signed a year and a half ago. We have said we're open to discussing how to reconfigure those spending reductions without raising taxes.

CROWLEY: So keeping the top line.

MCCONNELL: The president seems -- the president seems to be not interested in reducing this amount of spending, even though we signed the bill a year and a half ago.

CROWLEY: And yet we are --

MCCONNELL: We think it's important to the American people to keep this commitment. And we're going to do it. We're willing to talk to him about reconfiguring the same amount of spending reduction over the next six months.

The American people look at this and say, gee, I've had to cut my budget more than this, probably on numerous occasions over the last four years, because we've had such a tepid economy now for four long years. I think they expect us to keep the commitment that we made. CROWLEY: So we are told that the president has called in recent days since your meeting with him on Friday; some Republicans and Democrats he thinks are willing to look at tax revenues on the side of sequestration to get rid of these automatic budget cuts.

I'm going to assume that you are not one of the Republicans he called, and neither is Speaker Boehner.

Do you think that there is a fracture inside the Republican Party that could undermine your adamant position and that of the Speaker that you will not agree to any sort of tax increase?

MCCONNELL: You know, so far I haven't heard a single Senate Republican say they would be willing to raise a dime in taxes to turn off the sequester. The president is free to call whoever he chooses to. He doesn't have to go through the Speaker and myself to talk to our members. And I fully expect him to do that.

But so far I haven't heard a single Senate Republican say they're willing to raise one dime in taxes in order to avoid a spending reduction commitment that we made on a bipartisan basis just a year and a half ago.

CROWLEY: Let me ask you about the upcoming continuing resolution, where the government will run out of funding.

Are you committed to not having a government showdown? We seem to hear that from Speaker Boehner; we seem to hear it from the president, that you believe --

MCCONNELL: We're also --

CROWLEY: Go ahead.

MCCONNELL: I'm sorry.

CROWLEY: Do you believe there will be a government shutdown? Have you ruled that out?

MCCONNELL: Senate Democrats have indicated they are not interested in that, either. I believe we're going to be able to work out passing the continuing resolution later in March on a bipartisan basis through both the House and the Senate.

CROWLEY: Let me turn to some political questions for you.

The first is Chris Christie, arguably the most popular Republican in the country, was not invited to CPAC, which is a collection of conservative groups.

Is it a mistake for the conservatives not to have invited someone who right now has shown an ability to bring together independents, Republicans and Democrats?

MCCONNELL: Oh, my goodness. I don't have any advice to give to outside organizations about who they choose to invite. I've been invited to go to the CPAC conference. I'm happy to be there and looking forward to speaking there. But I -- they don't consult me on their invitation list.

CROWLEY: Let me ask you then about your own race. Lots of talk about Ashley Judd, the actress and political activist, getting into the race to challenge you.

I'm wondering, since we've now already seen ads from some groups that support you against her, they seem a little worried that she might be a big challenge to you.

Will she?

MCCONNELL: Well, look, the race will take care of itself in 2014. But I must say it has kind of started early. There's a left- wing group down here in Kentucky that's already issued racial slurs against my wife and already

questioned my own patriotism.

So the Left is fully engaged down here in Kentucky. They would love to take out the Republican leader of the Senate. We expect a spirited race from whomever they ultimately choose.

CROWLEY: What did -- what did you think of that -- you're referring to a tweet by a progressive group in Kentucky that talked about your wife's ethnicity.

How did you take that? I mean, what -- why do you think they did that?

MCCONNELL: Well, it's happened before. The chairman of the Democratic Party, a few years back, engaged in the same kind of thing. My wife is a proud Chinese American, as you know. She was Secretary of Labor during Bush administration. Her family escaped from the Communists in mainland China, made their way to America and have lived the American dream.

And for that, racial slurs by the Democrats in Kentucky, it sort of goes with the turf at home. So we expect a spirited race. And of course there are a lot of left-wingers around the country who believe that the 2014 Senate race in Kentucky is the only race of national significance. And they would love to take out the Republican leader of the Senate. We'll be ready for them.

CROWLEY: OK. Yes or no, can you take Ashley Judd?

MCCONNELL: We'll see who they nominate and we'll be happy to run against whomever is chosen.

CROWLEY: And as far as your wife, Elaine Chao, we, of course, have had her on this show recently as the former Secretary of Labor under George Bush.

Thank you so much for joining us today.

MCCONNELL: Thank you.

CROWLEY: When we return, did the Obama administration exaggerate the impact of forced spending cuts?

Plus --

(BEGIN VIDEO CLIP)

BOB WOODWARD, "THE WASHINGTON POST": It makes me very uncomfortable to have the White House telling reporters you're going to regret doing something that you believe in.

(END VIDEO CLIP)

CROWLEY: The war of words between the president's man and the veteran journalist. Gene Sperling tells us his side of the story next.

(COMMERCIAL BREAK)

CROWLEY: I'm joined now by Gene Sperling, Assistant to the President for Economic Policy. I want to ask you about Bob Woodward in just a moment. But first I want to talk about these forced budget cuts. Is it done?

SPERLING: I certainly hope not. I mean, these are very harsh cuts that were not ever designed to go into effect.

CROWLEY: Be careful what you sign into law.

SPERLING: Well, you know, that's -- I hope that doesn't turn out to be the case, because the idea of the -- this enforcement mechanism, these very deep cuts, both on domestic spending and on defense spending, was that they were designed to be so onerous that they would force both sides to go back to the table and finish the grand bargain --

(CROSSTALK)

CROWLEY: How onerous are they? I mean, you -- because we've heard you, for the -- or the administration, certainly, for the last week or so. And then the president said, well, this isn't the Armageddon you're hearing about. This will be bad, but it's not Armageddon. It is hard to get a grip on what will happen.

SPERLING: Well, there's no question that, on day one, it will not be as harmful as it will be over time. But let me give you some sense of what people should be concerned about.

Every independent economist, from the chairman of the Federal Reserve to macroeconomic advisers, to the independent Congressional Budget Office, has said this will be very harmful to the economy. The Congressional Budget Office says this will cost us 750,000 jobs, 0.6 percent, over a half-percent of economic growth.

And this is right at a time when it's starting to look like our recovery could take hold. What that means is that every time you see an economic number, the next few months, you will know that there's less jobs being created that would have -- than would have been had we come to a bipartisan agreement.

And also --

CROWLEY: That's also a great -- I mean, honestly, that works well for you, doesn't it? Because if the -- if the economy didn't get as -- didn't go up as much as (inaudible) or unemployment come down as much as you'd like and say, well, you know, if we just hadn't had these sequesters.

SPERLING: You know, I want to make really clear; this sequester is a win for nobody. It is just a loss for the American --

CROWLEY: How come nobody's talking, then? What -- because both sides say this is -- this is awful; this is terrible -- every -- the economy's going to -- you're not going to be as good as it should be. And nobody is talking about ending it.

SPERLING: Well, first of all, I want you to know that this president is doing everything he can. He brought the Republican and Democratic leadership in on Friday.

I can tell you for a fact that yesterday, Saturday afternoon, the president was working the phone, talking to both Democrats and Republicans who, he thought, were willing to be part of the type of bipartisan compromise that we need to get -- to get out of this.

CROWLEY: Tell me who the president is speaking to. It's clear that he's not speaking to people in the leadership, Republican side.

SPERLING: Well, I'll you this: he's reaching out to Democrats who understand we have to make serious progress on long-term entitlement reform, and Republicans who realize that if we had that type of entitlement reform, they'd be willing to have tax reform that raises revenues to lower the deficit --

CROWLEY: You're talking about Lindsey Graham on the Republican side? Those sorts of people? Because it sounds like he's not talking to the leadership.

SPERLING: Well, he just had the leadership in on Friday. But I think what's most important is that we're not just trying to make those calls to read out the names. He's making those calls to see where there might be a coalition of the willing, a caucus for common sense, and trying to build trust.

So he's going to be having a lot more conversations like that, because he understands -- as I think more and more Republicans will understand -- that it makes no sense to sit back and watch communities that depend on military spending devastated; makes no sense to see us lose 750,000 jobs when we could come together in bipartisan compromise if we're all willing to (inaudible).

(CROSSTALK)

CROWLEY: Let me ask you about jobs. When do you expect that we will see enough jobs created to make a sizable dent in the unemployment rate, which has been so stubbornly high?

SPERLING: Well, you know, this is exactly the point we're making. You know, right now, you have seen some momentum in areas like housing and auto sales. And you've started to see jobs being created at a level that could slowly be bringing down the unemployment rate so that we can be making progress through the year.

What exactly worries me about this type of sequester is that it's going to hurt that progress of lowering the unemployment rate.

And Candy, you know, I talk to CEOs of major companies all the time, who are telling me they are putting projects on hold precisely because of this sequester and dysfunction in Washington. They're telling me (inaudible) --

CROWLEY: -- projects on hold for some time now because of the economy.

SPERLING: Well, no, but what they're saying now is that -- is that this type of dysfunction hurts their confidence in the economy and makes them hold back on creating new jobs. And one CEO of a major company said to me, you know, we'll be OK after a few months. But we have 20,000 -- 20,000 small business suppliers who depend on us.

And those small businesses could be very -- could be hurt very significantly. And so this does -- this sequester doesn't help anyone.

You know, Republicans say they're for defense. This cuts defense deeply. They say they're for border security. This cuts border security deeply. They say they're for long-term entitlement reform. This sequester doesn't do anything to help long-term entitlement reform.

CROWLEY: Just want to point one thing out here. The president's leadership meeting that he had on Friday just before the sequester was to go into effect, really was the first one of that type that he has had since the end of December.

So there's a lot of complaint also on the Republican side that he hasn't been involved.

But as a final question, because you've got to run and so do I, and that is the fracas with Bob Woodward.

Have you spoken to him since this all came up?

SPERLING: You know, Bob and I have known each other for 20 years, and we've always had a friendly and respectful relationship. Anybody who looks at the emails that went from me and that came back from him can see that there's respect and friendliness. And you know, all I can --

CROWLEY: Somehow he didn't feel that, though.

SPERLING: Well, you know, I can't explain that entirely. But I'll say the following: I think he's been -- he's a legend. I hope that him and I (sic) can put this behind us. And I hope that it helps all of us focus on, I think, the issues Bob and I care most about, which is how we come to the type of budget agreement that will help our economy, help jobs, help middle class Americans.

CROWLEY: Assuming you still disagree with him on the president moving the goalposts in terms of the sequestration --

SPERLING: Absolutely.

CROWLEY: -- have you spoken to him in the last couple of days?

SPERLING: No, I hope to. But you know, again, this is a disagreement. It's a substantive disagreement.

And as we've said often, I think everybody who was part of that conflict or negotiation in 2011, knows that we put the sequester in place to force both sides to come back to the type of grand bargain that Bowles-Simpson have called for, that most budget experts called for, that recognize it's not cutting defense and domestic spending like education and research we need.

What we need is a compromise.

CROWLEY: Gene Sperling, thanks for your time this morning.

SPERLING: Well, thank you, Candy.

CROWLEY: When we return, the shrinking battlefield for a majority in Congress. And is the president using this latest crisis to try to win back the House?

(MUSIC PLAYING)

BARACK OBAMA, PRESIDENT OF THE UNITED STATES: What I can't do is force Congress to do the right thing. The American people may have the capacity to do that.

(MUSIC PLAYING)

(COMMERCIAL BREAK)

CROWLEY: If lunging from crisis to crisis seems like the new normal in Washington, look no further than the stats from November of 2012 for one of the reasons.

(BEGIN VIDEO CLIP)

CROWLEY (voice-over): The Cook Report found that only 74 of 435 members of the House won their elections with 55 percent or less of the vote in their districts.

The flip side of that equation, 361 House members, won their races with over 55 percent of the vote. With most House seats either solidly Republican or Democratic, incumbents are more likely to face a tougher primary than general election race, giving them no incentive to compromise on big legislation.

For 2014, it has already begun. This website was set up by the conservative Club for Growth, a big money player in politics. The site IDs Republicans the group sees as insufficiently conservative on fiscal matters. The address: primarymycongressman.com.

Also gumming up the works, legislation that passes in the majority Republican House seldom even reaches the floor of the Democratically-led Senate. For his part, President Obama urges congressional members to remember why they came to Washington.

OBAMA: We are not here for ourselves; we're not here for our parties. We're not here to advance our electoral prospects; we're here for American families.

(END VIDEO CLIP)

CROWLEY: Which we should point out is really easy to say when you've run your last election.

Next up why politics seems to trump governing, with the two men in charge of winning their parties' control of the house in 2014.

(COMMERCIAL BREAK)

CROWLEY: Joining me now, Congressman Steve Israel, head of the Democratic Congressional Campaign Committee, and Congressman Greg Walden. He chairs the National Republican Congressional Committee.

Thank you both for being here on your debut here for us and together, as I understand.

(CROSSTALK)

WALDEN: Great to be with you.

CROWLEY: So it's very nice to have you.

So we, sort of, laid out mathematically how the vast majority of Republicans and Democrats in the House were elected by big margins in -- at least in today's terms, 55 percent or more.

So realistically speaking, you all are never going to be able to find big legislation that you can agree on in a bipartisan manner. Republicans can shove it through, but you're never going to be able to agree, are you?

WALDEN: I don't think so. I don't think that's true. Look, we'll have competitive races, but when the race is over, we should get together and try and solve America's problems.

(CROSSTALK)

CROWLEY: From your lips to God's ears, but it doesn't happen, does it?

WALDEN: But it's a bicameral process. So when we pass something in the House, it doesn't mean the Senate has to take it up exactly the way we passed it. Have them pass something back; we'll get together and see if we can't work it out. But at least we've got to have the volleying back and forth so we can come to common ground or at

least try.

CROWLEY: Have you seen common ground? Name me one really big thing in the last four years that the House of Representatives have passed on a bipartisan basis.

ISRAEL: Well, look, we just passed the Violence Against Women Act. I mean, it took the Tea Party Republicans 500 days to allow us a vote, and we did finally vote for it.

Look, I just came from my district, Candy. And I think my district is like most others in America. I don't care whether you're in a blue district, a red district, a purple district; you want a Congress that's going to focus on solutions. You're tired of the politics of blame and you want a Congress that's going to focus on solutions.

On this major economic issue we have right now, sequestration, House Democrats have attempted on three separate occasions to get a vote on a solution that is based on compromise, that is fair and balanced, that continues to cut spending beyond what we've already agreed to cut, \$1 trillion, that cleans out our tax code and eliminates corporate tax loopholes for special interests, that reprioritizes.

We couldn't even get a vote, not one vote on those three things. So, look, I like Greg Walden a lot. We do a lot of work together. We share each other's pains. But my question to Greg is can we, at least in the spirit of comity and compromise -- can we at least get a vote on our common-sense solutions?

You can vote no, but at least give us a vote.

WALDEN: So the way this works, actually, we've had two votes, one in May and one in December, to offset the sequestration in the House. We came up with common-sense reductions in spending, some of which came from the president's own initiatives. We sent that to the Senate. And the Senate never took it up. The Senate never passed it. The president never weighed in, in support. And he said, if you don't increase taxes, I'm going to veto it.

So we've tried to get flexibility from the sequester moving forward and it's been rejected, or it's like that Jimmy Buffet song, "If the phone doesn't ring, it must be me."

(LAUGHTER)

We're waiting for Harry Reid, or we're waiting for Barack Obama.

CROWLEY: Let me move you on to politics because something caught my eye in a story today in The Washington Post. And it quotes you, Congressman Israel, quote, "The president understands that, to get anything done, he needs a Democratic majority in the House of Representatives," said Representative Steve Israel, chairman of the Democratic Congressional Campaign Committee. "To have a legacy in 2016, he will need a House majority in 2014, and that work has to start now."

How is that substantially different from Mitch McConnell, who was pounded for years for saying that his priority was to get the president to be a one-term president?

ISRAEL: Well, there's a -- there's a huge difference. The difference is that House Democrats have consistently supported compromise. The president put out a plan... CROWLEY: But this is about the president's legacy now, which you point out. It's about the president's legacy. So how would we ever know that he really wants to work with House Republicans when we know that he wants the House to be Democratic and is actively working in a

way he has not worked at it before?

ISRAEL: Here's why. Last Thursday the Republican speaker of the House, John Boehner, spoke to the Republican Caucus and said there will be no more negotiations, no more talks; not one corporate tax loophole will be considered...

CROWLEY: As part of a sequester.

ISRAEL: As part of a sequester. And the Republican Caucus cheered. Since when do we begin cheering for failure?

(LAUGHTER)

Since when did we cheer against compromise?

CROWLEY: I think they were probably cheering on the tax -- the tax cut part...

(CROSSTALK)

ISRAEL: But the fact of the matter is the speaker said we will not negotiate and there was cheering. What the president needs is more conversation about compromise and less cheering for the lack of compromise.

WALDEN: The first phone call the president of the United States made as he left the platform on election night -- it was to my friend here from New York, Steve Israel, as reported by The Washington Post, to say, "I'm all in this time to take back the House."

The next phone call was to Nancy Pelosi, saying "I'm all in to take back the House."

He has had the neverending campaign, using Air Force One and \$180,000 an hour to campaign around the country. He has not committed to solving these problems until he has nobody that will stand up and say "Let's have a check and balance here, Mr. President." And, for heaven's sake, don't get in the president's way or question him or you might regret staking our your position.

CROWLEY: Congressman Israel, you can see why people will now look askance at the president's dealings with Republicans in the House whom he now is, you know, dedicated to getting out of office. Now, we knew that obviously presidents want their own party in. But -- but this in the midst of all thee negotiations shades how you look at it, does it not?

ISRAEL: Well, look, the president has consistently supported compromise. The president and House Democrats have supported over a trillion dollars in cuts. We know that we have to cut even more. But what the president has said to House Republicans is let's substitute 750,000 pink slips, which this process will lead us to, with a reduction in big handouts to a few big oil companies.

(CROSSTALK)

ISRAEL: Well, let me finish -- and -- and the kinds of cuts that are going to cost 750,000 jobs. We need compromise and solutions and less blame.

CROWLEY: Let me move you on to some issues because...

WALDEN: Well -- well...

CROWLEY: OK, go ahead, real quickly.

WALDEN: Before you do that, I do think I get a chance to respond here in the terms of the fiscal cliff. The president just got \$600 to \$700 billion in tax increases at the end of the year in a compromise on the tax code. That was a compromise passed by the House and the Senate into law.

That's an enormous amount of revenue if you think about it, \$600 billion to \$700 billion in higher taxes. We've done the tax piece. We need now to deal with Washington wasteful spending, and it needs to be done. And the trillion dollars he's talking about was part of the Budget Control Act that, you know, included the...

CROWLEY: It didn't happen.

WALDEN: No, it did happen. It's long. It included the sequestration. That's what we're arguing about today. That's where those cuts come from.

CROWLEY: Let me...

ISRAEL: What we need is more continued balance.

CROWLEY: OK. Let me ask you, moving forward, on, sort of, separate issues that you all have. We have a situation where a number of Republicans joined in publicly stating their support for gay marriage. And I wanted to ask you, as you look at these upcoming elections for House members, how do you hold true to the social pillars of the Republican Party and still invite in those, and there are many Republicans, who say, you know, we need to be supporting gay marriage, among other social...

WALDEN: And there's certainly Republicans who do, Ileana Ros- Lehtinen and Richard Hanna, others, that have actively engaged in that and support that. In other parts of our country, they don't support that.

But, look, I think this is evolving. The...

CROWLEY: It, kind of, invites primary challenges, though, doesn't it?

WALDEN: Well, it can. It does. And that's what primaries are about. But I think we're evolving on a lot of these issues. But the thing Americans care most about is am I going to have a job; are we going to get this economy going; can you sign off on Keystone Pipeline, create 20,000 American jobs? I think the economy is job number one and it should be for everybody.

CROWLEY: And let me ask you, on your side of the aisle, you have, I think, more than -- almost a dozen, maybe more than two dozen, actually, congressmen have written the president and said no way, no how can you touch Social Security, Medicare or Medicaid, which everybody says are the huge drivers of the deficit. How do you, sort of, bring the Democratic Party behind not a single but at least a consensus view of what should happen to these entitlement programs?

ISRAEL: Number one, we've already achieved over \$700 billion in savings and efficiencies in Medicare, which is an entitlement program.

CROWLEY: Nobody thinks that's enough.

ISRAEL: Number two, we understand that we've got to go beyond that; we've got to have a serious conversation and a good compromise and a sensible, smart strategy on entitlements.

But what we get is we want to reform Medicare. We want to begin to reduce Medicare and Social Security from the Republicans, but we can't find one single special interest tax loophole that they're willing to roll back or end?

(CROSSTALK)

ISRAEL: Why is it that seniors have to be the first to sacrifice the most?

CROWLEY: But everybody -- everybody does think that the entitlements are what, really, you have to approach, and we don't see any sign of that.

(CROSSTALK)

ISRAEL: ... the conversation, but let's prioritize.

CROWLEY: Let me -- I've got to -- I've got to go here, but I want to thank you so much, Congressman Israel, Congressman Walden.

WALDEN: Thank you.

CROWLEY: Come back. We'll do it again.

ISRAEL: We'll do it. Thank you.

CROWLEY: What's the difference between "Armageddon" and "painful?" We'll get to that in a second.

We're also monitoring the situation in Florida where authorities are demolishing what's left of a house where a sinkhole swallowed a man alive.

(COMMERCIAL BREAK) (BEGIN VIDEO CLIP)

REP. NANCY PELOSI, D-CALIF., HOUSE MINORITY LEADER: Either they don't want to legislate or they don't know how to legislate.

(END VIDEO CLIP)

(BEGIN VIDEO CLIP)

REP. JOHN BOEHNER, R-OHIO, SPEAKER OF THE HOUSE: We've shown that we can pass bills to replace the sequesters.

(END VIDEO CLIP)

(BEGIN VIDEO CLIP)

SEN. HARRY REID, D-NEV., SENATE MAJORITY LEADER: The Republicans want the sequester to go forward.

(END VIDEO CLIP)

(BEGIN VIDEO CLIP)

SEN. MITCH MCCONNELL, R-KY., SENATE MINORITY LEADER: The president is moving the goalpost.

(END VIDEO CLIP)

(BEGIN VIDEO CLIP)

SEN. CHARLES E. SCHUMER: The leadership is simply running out the clock.

(END VIDEO CLIP)

(BEGIN VIDEO CLIP)

BOEHNER: The president and Democrat leaders have failed to pass a solution of their own.

(END VIDEO CLIP)

(BEGIN VIDEO CLIP)

SEN. RICHARD DURBIN: And the House has basically decided to sit it out.

(END VIDEO CLIP)

(BEGIN VIDEO CLIP)

SEN. ROY BLUNT, R-MO.: It's almost like the administration was given a homework assignment 18 months ago and they showed up last week saying, "Gee, we're not ready for this."

(END VIDEO CLIP) CROWLEY: Is this as bad as it gets? Joining me around the table to discuss, Mark Zandi -- he's the chief common economist for Moody's Analytics; Susan Page, the Washington bureau chief at USA Today; and Stephen Moore, a columnist for The Wall Street Journal.

Well, we don't lack for finger-pointing. What we lack for is any kind of solution to this. It does not sound to me as if the Republicans or the Democrats are eager to get together to do anything. Is that the sense you're getting?

ZANDI: Yeah, I think the sequester is going to be the sequester. Now, they may give the president some flexibility on how to implement it, which would be a good thing. But they won't give them that until this -- the continuing resolution, which is at the end of the month. So I think the \$1 trillion, \$1.1 trillion in 10-year spending cuts -- that's a done deal. That's going to -- we're going to face that.

CROWLEY: They stay?

ZANDI: Yeah.

MOORE: And Republicans are very frustrated. I -- I heard your interview earlier with the president's chief economic adviser. What he left out is, you know, when they had the debt ceiling -- this is all a result of, remember, those failed debt ceiling talks two years ago. Well, the Republicans kept saying let's -- let's, you know, reform this entitlement, that entitlement and others. And the president rejected every entitlement reform the -- the Republicans put on the table.

So for now the president is saying, oh, well, we want to reform entitlements. Well, sure, let's do that. But I think one of the things Republicans aren't going to do at this point is agree to any tax increases.

CROWLEY: It doesn't sound like it, Susan. And just from a political point of view, it seems to me it still is a kind of a gamble for Republicans, only because the public polling continues to show that the Democrats and the president are the ones that get less blame, anyway.

PAGE: Well, there's clearly a miscalculation on the part of the White House. They figured that the defense cuts would be enough to force Republicans back to the table, but not this Republican Party. That was the old Republican Party. This party cares more about spending than it does about keeping defense numbers up.

And therefore this option that seemed completely unacceptable -- it sounded to me from your interviews this morning both sides are ready to accept them. And in fact, what I think we're going to start to see is efforts to make the sequester work, to make some of these dire predictions that we've heard from the White House about what's going to happen, to try to deal with it to make the impact as limited as possible, although, you know, there is going to be an impact.

ZANDI: And one thing that could happen is, if the impacts are significant -- so if there's a lot of disruption that goes on in the air traffic control system or the FDA, they could take some of it back through emergency authorization. So, you know, when you add it all up, they may take some of the cuts back.

MOORE: But, you know, what's so frustrating to me is, look, I'm a deficit hawk. I want to see these deficits reduced. We've been running trillion-dollar deficits. What we're talking about here in terms of outlays is about \$50 billion in savings. The average agency is going to have to save about four cents to a nickel on the dollar.

And I do think Republicans can say, look, most Americans know about 30 cents of every dollar they send to Washington is wasted. Are you kidding me? We can't save five cents on the dollar without shutting down the air traffic control system or shutting down the schools?

ZANDI: But this will -- this will have an impact. I mean, if you add up the dollars and cents of this, this is meaningful. It's a half a percent of GDP.

CROWLEY: Do we really know what the impact is going to be? I mean, because we have gone, you know, from one extreme to, kind of, like, well, no, it's not going to be that bad because it's only, you know, five cents on the dollar or whatever. We don't actually know what's going to happen, do we?

(CROSSTALK)

MOORE: You know, Mark, we had a sequester back when I worked for President Reagan in 1987. Everybody said it was going to be -- now, it was a little smaller than this one. But you know what? Life went on. Agencies found they could save on travel and conferences and paper clips. And what I find objectionable is why is the president wanting to cut the most sensitive and most valuable services, not the waste out of the budget where everyone knows it is?

ZANDI: To some degree, his hands are hamstrung, right? Because this -- these are cuts -- and this is the problem with the sequester, what makes it more disruptive, is it's at the project level and the program level, so it gives the agencies less flexibility with regard to implementing it.

MOORE: But, Mark, then why did the president say this week he didn't want the -- remember, he said I don't want the flexibility. He wants this to be as dire as possible.

(CROSSTALK)

ZANDI: ... it's raw politics

MOORE: Right, he doesn't want...

CROWLEY: I was going to say -- we're on your forte here. I mean, it is -- nobody wants to be the person that says save this program; don't save that one, right? I mean, that's part of the problem here? PAGE: And part of the problem is that where the president could get really hurt is if the economy in fact takes a dive in part because of this.

CROWLEY: But, you know, they're setting up -- aren't they setting up already for bad economic figures?

Because the first thing that Gene Sperling said was, well, now when we see economic figures in the future, we'll know what the impact has been.

PAGE: Here, Candy, we've covered various presidents. How effective is it when presidents say, oh, the economy's bad; not really my fault; it's somebody else's fault. The fact is the president's only economy, a bad economy, is bad for Barack Obama even if he can argue that the Republicans did it with the sequester.

ZANDI: I'm sorry, but when you said we don't know, we do know. This is arithmetic. I mean, when you cut out \$40 billion or \$45 billion in outlays and that's the actual checks that are cut to people in a six-month period, that's going to have an impact. And you can just do the math and it's going to be about a half percent of GDP.

MOORE: I disagree with that. I mean, I think, actually, this is an area where Mark and I disagree. I actually think cutting government spending right now is a good thing. I think it will give the financial markets some sense that we're going to do something about this deficit.

CROWLEY: I wanted to ask you...

MOORE: Let me ask you this. If we can't cut \$50 billion out of the deficit, how are we going to get rid of another \$950 billion?

ZANDI: We just don't want to cut it all at one time.

MOORE: When, then? When?

(LAUGHTER)

CROWLEY: Let me ask you about the Dow, which hit this five-year high on Wednesday. In the meantime, we're getting reports about personal income takes a huge, you know, monthly dive. Are there two economies out there or is Wall Street just, sort of, now discounts what's going on in Washington?

ZANDI: Well, of course, the dive in personal income is the tax increases, right? That reflects the payroll -- the expiration of the payroll tax holiday, and it's temporary hit. And actually there was a big boost in income December when all the dividends were paid out and everything to avoid the higher taxes.

CROWLEY: Right.

ZANDI: It's -- you know, the stock market is reflecting the fact that American companies are in fantastic financial shape. Their profit margins are fantastic. They're very competitive.

MOORE: And housing. And housing is really picking up. I mean, look, there are some real signs of progress. I think the only thing that is holding back the economy is Washington right now.

PAGE: But you know how President Bush used to talk about the "soft bigotry of low expectations" when it came to education. I think we're now seeing that with the markets when it comes to Washington.

There is no assumption that Washington is going to be able to deal in a serious, long-term way with things like the sequester. And so it gets discounted and so what we see, this debate -- messy debate in Washington does not have an effect on the Dow.

ZANDI: That's exactly right. You know, the other thing is that with each passing round of brinkmanship, it's becoming less of a problem for Wall Street because they know the script. They know exactly what's going to happen.

(CROSSTALK)

ZANDI: And as long as Washington doesn't go off the script, meaning, cut -- shut the government down, that would be going off the script or not paying its bills, that would be what happened if they didn't raise the debt limit, then Wall Street is going to be fine and the economy is going to be fine, we're going to be off and running.

CROWLEY: Let me ask you a final wrap-up question here. We heard the president say that these budget cuts will not be Armageddon that some have described, but they'll be very bad. So I was going to try to get each of you to say, like, what is your description of what's going to happen if you're at home watching today from, you know, St. Louis, Missouri, what is going to be the impact?

ZANDI: Well, it's not catastrophic. It's just that we're going to feel uncomfortable this spring and summer when we have to really digest the tax increases and these spending cuts. It all comes together this spring and summer.

So the economy is going to slow, we're going to feel -- in a sense that the economy is going to slow to a pace that unemployment could actually start to notch up, again.

PAGE: I think it depends in part on where you live. If you live in a place with a big federal component, like the Washington, D.C., area, you may see more impact than if you're in a place that's a little more shielded from it. I think people will see some impact, but Armageddon would be something permanent. I think this is something temporary.

MOORE: Washington, D.C., did the best over the last four years with all the stimulus spending. So the fact that some people in Washington will lose their jobs, maybe that's not such a bad thing in the rest of the world.

But, look, the sun is going to still rise in the east tomorrow and the next day. This is not a big problem. I think we can handle it. We've done it before. And when you have got a \$1 trillion deficit, you have to start somewhere.

CROWLEY: Stephen Moore, Susan Page, Mark Zandi, thanks, you guys.

ZANDI: Thank you.

CROWLEY: Coming up, the latest news from Florida as workers begin the demolition of a home over very unstable ground.

(COMMERCIAL BREAK)

CROWLEY: We want to take you back to Seffner, Florida, just outside Tampa where crews are demolishing the home where a man was devoured by a giant sinkhole. Jeff Bush was in his bed when the ground beneath him collapsed Thursday night, creating the 50- to 60- foot deep hole. Joining us on the phone now is Hillsborough County Administrator Mike Merrill.

Mr. Merrill, thank you for joining us. Can you tell us the situation now? Are you nearing completion of demolishing this house? And have you been able to save any of the valuables? I know that the family was certainly interested in some remembrances of the deceased.

MIKE MERRILL, ADMINISTRATOR, HILLSBOROUGH COUNTY, FLORIDA: Yes. We're actually in the middle of demolition and the first thing that we did to help out the family was to extract as many of the valuables as we could from the property. And we were very successful in doing so. The family is very happy with what we've been able to recover. And we're going slowly. The structure is very unstable, the ground is very unstable. But we're right sort of the middle of demolition right now.

CROWLEY: And what keeps -- we're looking at pictures right now. What keeps that giant machine that is demolishing the home from sinking into a sinkhole or making it worse? I mean, it must weigh tons.

MERRILL: It does. Basically the last couple of days our contractors and engineers have been establishing the perimeter of the sinkhole and they determined that it would be safe for equipment to operate from the roadway. So he's basically not going any further with the equipment than the sidewalk. And because of the reach of the arm, he's able to do his work.

CROWLEY: Do it safely. Tell me about any danger of similar things occurring or of this hole getting bigger and encompassing the other houses. Can you give us an update on that? And just tell us in general how rare is this in your area?

MERRILL: Well, sinkholes are not -- are not rare. I mean, they do happen from time to time. This one is extremely unique. Many of the folks who have been working with us over the years, contractors who see sinkholes all the time throughout Florida, have not seen anything like this because of its depth and its aggressiveness and the way that it continues to collapse.

CROWLEY: OK. All right-y. Mr. Merrill, we really want to thank you for your time. He, the county administrator in Hillsborough County. Good luck with this work. Let's hope it doesn't get any bigger and involve some of those other houses. Thanks so much.

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